

Patricia M. French
Senior Attorney



300 Friberg Parkway
Westborough, Massachusetts 01581
(508) 836-7394
(508) 836-7039 (facsimile)
pfrench@nisource.com

July 19, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following Information Requests:

From the Attorney General:

AG-4-8 (Rev.)	AG-4-9 (Rev.)	AG-4-10 (Rev.)	AG-4-18 (Rev.)
AG-4-19 (Rev.)	AG-4-20 (Rev.)	AG-9-23	AG-12-14
AG-12-25	AG-14-19 (Supp.)	AG-15-9	AG-22-47

From the Department:

DTE-16-1 (Supp.) DTE-16-38

From the USWA:

USWA-3-12 USWA-3-13

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)

A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)

Andreas Thanos, Assistant Director, Gas Division (1 copy)

Alexander Cochis, Assistant Attorney General (4 copies)

Service List (1 electronic copy)

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-8 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and identify and provide copies of any studies management relied on to choose the pension study's discount rate.

Response: Please refer to the Company's response to information request AG 19-16.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-9 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and identify and provide copies of any studies management relied on to choose the pension study's assumed return on trust fund assets.

Response: Please refer to the Company's response to information request AG 19-20.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-10 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and identify and provide copies of any studies management relied on to choose the pension study's wage base increase factor.

Response: Please refer to the Company's response to information request AG 19-17.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-18 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and identify and provide copies of any studies management relied on to choose the Post-Retirement Benefits Other Than Pension study's discount rate.

Response: Please refer to the Company's response to information requests AG 19-21 and AG 19-16. The discount rates used for PBOP is the same as that used for pensions.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-19 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and identify and provide copies of any studies management relied on to choose the Post-Retirement Benefits Other Than Pension study's assumed return on trust fund assets.

Response: Please refer to the Company's response to information requests AG 19-24 and AG 19-20.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

REVISED RESPONSE

AG-4-20 Please provide the workpapers, calculations, formulas, assumptions, supporting documentation and copies of any studies management relied on to choose the Post-Retirement Benefits Other Than Pension study's trends in health care, medicare and prescription drug costs.

Response: Please refer to the Company's response to information request AG 19-22.

REVISED RESPONSE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
NINTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)
Joseph A. Ferro, Mgr., Regulatory Policy (Rates and Tariffs)

AG-9-23 According to witness' testimony the SIR adjustment mechanism is designed to recover cost increases net of associated O&M expense decreases. Please explain how the ABRAM will not inflate the O&M costs component of rates that represent costs that are reduced over time as part of the SIR program. Include an example of how the mechanism functions to assure such inflation will not occur. Include all workpapers, calculations and assumptions.

Response: The Steel Infrastructure Replacement ("SIR") base rate adjustment incorporates a credit for the reduction in leak activity. As mains and services are replaced under the SIR, Bay State expects to see a reduction in leak repair activity and corresponding O&M expense. A credit is provided in the SIR base rate adjustment based on the number of leaks repaired during the current year compared to the four-year average of leak experience of 2000 through 2003.

As illustrated in Schedule JES-17, a credit is provided based on a reduction in leaks from the base level of 719 to 674 for the illustrative year. The increase in revenue for the SIR base rate adjustment is net of the O&M savings as shown on Line 17 of Schedule JES-17, Page 1 of 12. This O&M savings is defined and referenced in Section 9 of the Company's proposed ABRAM tariff, M.D.T.E. No. 63, pages 13 and 14, and reflected in the SIR revenue Requirements Formula on page 14 of the tariff. As the SIR program continues and less leak activity is experienced, the credit should increase.

Although the Company's Sample SIR Base Rate Adjustment presented in Schedule JES-17 derives an O&M leak repair offset or credit based on the average number of leaks repaired during the period of 719 less the "Sir Program Year" number of leak repairs, at a four-year average cost of \$1,021, the Company acknowledges, and thus proposes, that a current average cost per leak repair could be used each year the Company files its SIR Base Rate Adjustment. The Company could simply use the "SIR Program Year" actual average cost per leak repair and apply that average cost to the difference between the average number of leaks of 719 and the number of leaks in the "SIR Program Year." Using this current year average cost per leak is consistent with the use of the actual costs of SIR-related plant additions in that year and also provides for a current average

actual cost from which to calculate the credit for the O&M leak repair offset. In that regard, the O&M costs will be reduced each year by a current level of costs to repair leaks, and assures that inflation on the net O&M costs in base rates will not occur.

Alternatively, the Company would be amenable to escalating the average cost of leak repairs of \$1,021 by the applicable inflator factor utilized in the Company's PBR Base Rate Adjustment Mechanism set out in the ABRAM.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

AG-12-14 Referring to Exhibit BSG/SAB-1, page 19, lines 8-19, please provide copies of all annual cash award plans, the NiSource Corporate Incentive Plan, all specialized incentive plans, incentive plans, performance adjustments, Performance Management Programs, and Corporate Incentive Program. For each program, please provide the following:
(1) a complete and detailed description of the plan;
(2) an itemization of the employee job title categories that can receive payments under that plan; and
(3) a five-year history of the payouts to each employee job title category under that plan.

Response:

- (1) The following attachments include a description of the current incentive plan:
 - Attachment AG-12-14 (a) - NiSource Corporate Incentive Plan
 - Attachment AG-12-14 (b) - NiSource Corporate Incentive Plan First Amendment
 - Attachment AG-12-14 (c) - NiSource Corporate Incentive Plan Second Amendment
- (2) See Section 3 of Attachment AG-12-14 (a) for a description of participants who are eligible to participate in the incentive plan. An itemization of the employee job title categories that can receive payments under this plan is not available.
- (3) See the Company's response to AG-1-35 for the incentive compensation payouts for 2002, 2003 and 2004. Data prior to 2002 is not available.

NiSource Corporate Incentive Plan

1. Purpose.

NiSource Inc. (“Company”) established the NiSource Corporate Incentive Plan (“Plan”) to provide additional compensation for employees who influence the profitability of the Company and its affiliates (individually, “Employer” and collectively, “Employers”).

2. Administration.

The Plan is administered by the Officer Nomination and Compensation Committee (“Committee”) of the Board of Directors of the Company (“Board”), which, subject to action of the Board, has complete discretion and authority with respect to the Plan and its application, except to the extent that discretion is expressly limited by the Plan.

3. Eligibility for Participation.

The participating group of employees (“Participants”) under the Plan is comprised of exempt and non-exempt employees of the Company and its affiliates, excluding any employee who has received a last chance letter, final notice letter or equivalent during the Plan year, certain exempt employees who participate in other specialized functional incentive plans and bargaining unit employees of Kokomo Gas and Fuel Company. The Committee, in its sole discretion, shall determine each calendar year the identity of the Participants. The Committee may add additional employees, and remove employees, as Participants during each calendar year.

Notwithstanding the previous paragraph, an employee described above shall be a “Limited Participant” if he or she has received a suspension without pay during the Plan year. Any Participant not covered under the preceding sentence is a “Full Participant.”

4. Determination of Incentive Payment.

The incentive payment calculation is shown on Exhibit I attached hereto. The Plan is predicated on establishing an incentive pool based on achievement by the Company of a financial trigger, as shown on Exhibit I, for the applicable calendar year, up to a maximum incentive pool established by the Committee. If the financial trigger is met or exceeded for a calendar year, an incentive pool is created for such calendar year. Each Participant’s incentive payment from the incentive pool will be based on such Participant’s status (*i.e.*, exempt or non-exempt, Employer and job scope level) as of December 31 of the calendar year on which the incentive payment is based.

The incentive payment for a Participant who is an exempt employee is divided into two parts. The first part will be calculated based on a formula set forth in Exhibit I. The remainder of the Participant’s potential incentive payment is drawn from a portion of the incentive pool (“Division Pool”) allocated to the Participant’s manager, in the discretion of the Executive Council of the Company (“Executive Council”), and allocated by such manager among the Participants supervised by the manager. The amount of the Division Pool will be determined by the Executive Council based on the performance of the applicable business unit. The allocation of the Division Pool among the Participants in the business unit will be determined by the

manager of such business unit based on individual performance of each Participant in the business unit. The discretion exercised by the Executive Council and each manager in this respect is conclusive.

The incentive payment for a Participant who is a non-exempt employee will be awarded to the Participant on a calculated, formula basis set forth in Exhibit I.

Any Participant who terminates employment with the Employers and their affiliates due to death, disability or retirement, pursuant to an Employer's qualified retirement plan, during a calendar year will be deemed a Participant on December 31 of such calendar year, and will receive a prorated calculated incentive payment for such year based on his or her Eligible Earnings as determined pursuant to Exhibit I, through the date of termination of employment.

5. Distribution of the Incentive Payment.

The elements of each incentive payment, namely, (1) the calculated incentive payment amount and (2) the discretionary incentive payment amount, if applicable, are distributable to the Participant, or his or her beneficiary, in cash in a single sum as soon after the end of the applicable calendar year as practicable, in the same manner as payroll.

6. Continuity of the Plan.

Although it is the present intention of the Company to continue the Plan in effect for an indefinite period of time, the Company reserves the right to terminate the Plan in its entirety as of the end of any calendar year or to modify the Plan as it exists from time to time, provided that no such action shall adversely affect any incentive payment amounts previously earned in a preceding calendar year under the Plan.

7. Notices.

Any notice required or permitted to be given by the Company or the Committee pursuant to the Plan shall be deemed given when personally delivered or deposited in the United States mail, registered or certified, postage prepaid, addressed to the Participant, his or her beneficiary, executors, administrators, successors, assigns or transferees, at the last address shown for the Participant on the records of the Company or subsequently provided in writing to the Company.

8. Withholding.

The Company may withhold from any incentive payment under the Plan amounts sufficient to satisfy applicable withholding requirements under any federal, state or local law, and deductions as may be required pursuant to agreement with, or with the consent of, a Participant, including any elective deferrals under the NiSource Inc. Retirement Savings Plan and the NiSource Inc. Executive Deferred Compensation Plan.

9. Miscellaneous Provisions.

(a) No incentive payment under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge prior to actual

receipt thereof by the payee; and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void; and the Company shall not be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to any incentive payment under the Plan.

(b) Nothing contained herein will confer upon any Participant the right to be retained in the service of an Employer or any affiliate thereof nor limit the right of an Employer or any subsidiary thereof to discharge or otherwise deal with any Participant without regard to the existence of the Plan.

(c) The Plan shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating assets of an Employer or any affiliate thereof for payment of any incentive payments hereunder. No Participant or any other person shall have any interest in any particular assets of an Employer or any affiliate thereof by reason of the right to receive an incentive payment under the Plan and any such Participant or any other person shall have only the rights of a general unsecured creditor of an Employer or any affiliate thereof with respect to any rights under the Plan.

(d) Any portion of the incentive pool not allocated to Participants for a given calendar year shall remain a general asset of the Company.

10. Governing Law.

The provisions of the Plan shall be construed and interpreted according to the laws of the State of Indiana, except as preempted by federal law.

IN WITNESS WHEREOF, the Company has caused the Plan to be executed in its name by its duly authorized officer this 16th day of July, 2004, effective as of the 1st day of January, 2004.

NISOURCE INC.


By: 

Exhibit I

2004 Incentive Calculation

- Financial trigger: Basic earnings per share from continuing operations (“EPS”) of \$1.65 as of December 31, 2004, after accounting for the cost of the incentive pool. Therefore, EPS must be higher than \$1.65 in order for an incentive pool to be established.
- Incentive pool: Any earnings above the financial trigger may, in the discretion of the Committee, fund the incentive pool.
- Eligible Earnings: Actual base earnings in 2004 plus all shift premiums and overtime pay. (Reimbursements for educational assistance, relocation, meals, mileage, incentive payments, and long-term disability payments are not included in base earnings.)
- Payout Percentage: Each Participant will be given an incentive opportunity range, from trigger to maximum, during February 2004 and will be assigned his or her Payout Percentage as soon as practicable after the release of 2004 Company earnings.
- Incentive Payment:
- (a) Each Full Participant who is a non-exempt employee will receive his or her incentive payment from the incentive pool as a fixed percentage of his or her Eligible Earnings, according to the following formula:

$$\text{Non-Exempt Employee Incentive Payment} = \text{Eligible Earnings} \times \text{Payout Percentage}$$
 - (b) Each Full Participant who is an exempt employee will receive his or her incentive payment from the incentive pool partly from the formula set forth below and partly as a discretionary payment, as described in the Plan.

$$\text{Exempt Employee Incentive Payment} = \text{Eligible Earnings} \times \text{Payout Percentage} \times 66\frac{2}{3}\% + \text{discretionary payment, if any}$$
 - (c) Each Limited Participant will receive 50% of the amount calculated in paragraph (a) or (b) above, as applicable.

**FIRST AMENDMENT TO THE
NISOURCE CORPORATE INCENTIVE PLAN**

(EFFECTIVE JANUARY 1, 2004)

WHEREAS, NiSource Inc. (the "Company") maintains the NiSource Corporate Incentive Plan, effective January 1, 2004 (the "Plan"); and

WHEREAS, the Company desires to amend the Plan to reflect the financial trigger for calendar year 2005.

NOW, THEREFORE, Exhibit I is amended, effective January 1, 2005, as follows:

1. The title of Exhibit I is amended to read:

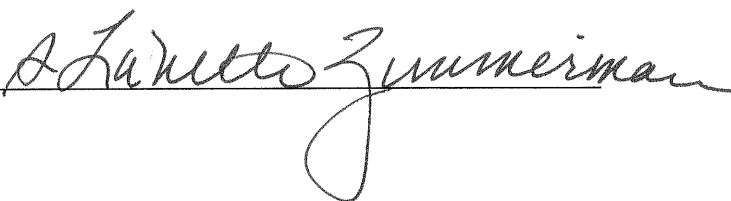
"2005 Incentive Calculation"

2. The explanation of financial trigger is amended to read:

"Basic earnings per share from continuing operations ("EPS") of \$1.50 as of December 31, 2005, after accounting for the cost of the incentive pool. Therefore, EPS must be higher than \$1.50 in order for an incentive pool to be established."

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed on its behalf, by its officer duly authorized, this 2 day of May, 2005.

NISOURCE INC.

By: 

**SECOND AMENDMENT TO THE
NISOURCE CORPORATE INCENTIVE PLAN**

(EFFECTIVE JANUARY 1, 2004)

WHEREAS, NiSource Inc. (the "Company") maintains the NiSource Corporate Incentive Plan, effective January 1, 2004 and as further amended (the "Plan"); and

WHEREAS, the Company desires to amend the Plan to increase the period of suspension that causes an employee to be a "Limited Participant" as defined in the Plan.

NOW, THEREFORE, The first sentence of the second paragraph of Paragraph 3 is amended, effective January 1, 2005, to read as follows:

"Notwithstanding the previous paragraph, an employee described above shall be a "Limited Participant" if he or she has received suspension(s) without pay of five or more cumulative days during the Plan year."

IN WITNESS WHEREOF, the Company has caused this Second Amendment to be executed on its behalf, by its officer duly authorized, this 2nd day of May, 2005.

NISOURCE INC.

By: A. Sarah Zimmerman

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWELFTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

AG-12-25 Referring to Exhibit BSG/SAB-1, page 44, line 8-12, please provide a complete copy of the last three studies referred to.

Response: The term "conduct ongoing evaluations" referenced in Mr. Barkauskas' testimony, Exhibit BSG/SAB-1, page 44, lines 10-11, was intended to mean that the Company also engages in informal peer discussions as well as reviews industry publications, press releases, and other general industry information to continually monitor how its benefits plans compare against other market participants. The Company does not conducted any other formal ongoing evaluations.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FOURTEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY
GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: Danny G. Cote, General Manager

SUPPLEMENT

AG-14-19 Refer to the Company's response to AG-2-16(a), p. 3 of 34 and the following statements in the report by R.J. Rudden Associates:

Based on interviews conducted with BSG personnel, as well as the accounting, engineering and reporting materials reviewed by Rudden, it appears that BSG has followed a prudent schedule of mains and services replacement, and has operated, monitored and maintained the existing system in a manner consistent with acceptable utility practices. Notwithstanding the application of good practices, the number of leaks has been increasing rapidly in recent years.

- 1) Identify all BSG personnel interviewed and produce copies of all notes from these interviews;
- 2) Produce copies of all accounting, engineering and reporting material reviewed;
- 3) State all facts, with reference to any supporting industry authorities, that support the conclusion that BSG followed a prudent schedule of mains and services replacement;
- 4) State all facts, with reference to any supporting industry authorities, that BSG operated, monitored and maintained the existing system in a manner consistent with acceptable utility practices;
- 5) State all facts, with reference to any supporting industry authorities, that BSG applied good practices;
- 6) Produce all documents from Health Consultants and summarize any oral opinions offered in connection with BSG.

- Response:
- 1) The following Bay State personnel were interviewed by Rudden: Steve Bryant, Danny Cote, Keith Dalton, Doug Casey, Paul LaShoto, Tom Birmingham, Colin Nesbit and Bill St Cyr. Copies of the notes created during those interviews are attached as Attachment AG-14-19 (a).
 - 2) The files reviewed are provided electronically on CD at Attachment AG 14-19(b) and Attachment AG 14-19(c).
 - 3) According to Rudden, the determination of the quantity of main

replaced or number of services replaced is based on the judgment of the utility's operational management and expertise. Rudden indicates that it believes Bay State based its replacement practices on experience and the review of information concerning the condition of the distribution system, including the leak history and other factors such as scheduled public and private road, sewer, water (etc) improvements that may require gas pipeline alterations or replacements.

It is Rudden's understanding that the Department regularly monitors Bay State's operations, maintenance and construction practices. It is Rudden's further understanding that these Department reviews of Bay State have found no prudence issues with Bay State's practices or scheduling of main and service replacement.

Furthermore, as stated in response to AG-14-15, during the period 1993-2003, the Company was replacing significant amounts of its bare steel mains. The Company monitored the number of leaks remaining in backlog at the end of each year. Table AG-14-19 illustrates Bay State's DOT data for leaks in backlog at year end.

TABLE AG-14-19

BSG DOT Data

Year	YE Leak Backlog
1993	36
1994	8
1995	10
1996	23
1997	27
1998	21
1999	36
2000	16
2001	12
2002	20
2003	101

According to Rudden, this measure is a direct indicator of Bay State's management of its leaks. It was Rudden's assessment that this measure, as viewed each year by the Company, indicated that the Company was replacing sufficient quantities of its bare steel mains to control its leaks.

Also, according to Rudden, during the period 1993-2003, the Company observed that the total number of leaks continued to vary year to year. Rudden notes, as illustrated in AG-2-16(a), p. 14 of 23, during the period 1993 through 1999, Brockton's corrosion leaks were only modestly increasing. Rudden's view is that the spike in the leaks observed in 1994 did not ultimately signal that the Company was replacing insufficient quantities of bare steel mains. The following three years showed lower

leak rates (1995-1999 averaged only slightly higher than 1993). During the period 2000 through 2003 the leaks also varied, but the leak rate trend continued to increase.

As illustrated in AG-2-35c, notes Rudden, the Company responded to the recognition of the trend of increasing corrosion leaks in Brockton by proactively replacing more bare steel in 2003 over 2002 and again more in 2004 over 2003, as well as planning for a significant increase in replacements in 2005 over 2004.

4) Rudden points out that BSG's practices exceed Federal and State leak detection code requirements. DOT Code Part 192.723 *Distribution Systems: Leakage Surveys*. This section states that the scope of the leakage control program must be determined by the nature of the operations and local conditions. As a minimum, it requires leakage surveys outside business districts at intervals not exceeding 5 years. MA 220 CMR 101.06 (21) , *Distribution Systems Leakage Surveys and Procedures*. This section states that each operator shall conduct leakage surveys as frequently as experience and technology indicates are necessary. As a minimum, it requires leakage surveys outside business districts at least once every consecutive 24 month period.

Rudden recognizes that Bay State's leak detection survey practices exceed both the Federal and State (Massachusetts) requirements. Rudden also notes that Bay State has determined that based on the age and leak history of its system, it is a prudent action to perform extra leak detection surveys. Bay State exceeds the Federal and State (Massachusetts) requirements by requiring in its Operating and Maintenance Procedures that leak detection surveys outside business districts be performed at least once a year. It also exceeds the Federal and State (Massachusetts) requirements by requiring a Winter Period Survey. In addition to leak detection surveys required by Bay State's Operating and Maintenance Procedures, Bay State typically performs additional winter time leak detection surveys of Brockton's bare steel mains.

To the best of Rudden's knowledge, there is no published leak management performance comparative review of Massachusetts gas utilities. However, a leak management performance benchmark utilized by the New York State Department of Public Service Safety Section, Office of Gas and Water, is the ratio of year-end leaks in backlog divided by the leaks repaired during the year, not including leaks caused by third party damage. (NYS PSC Case 04-G-0457). This benchmark is a tool used to compare leak management performance of gas utilities.

As illustrated in AG 2-16(a), page 12 of 23, for the period 1993 through 2003, for this benchmark, BSG is within the first quartile (average of 17%) compared to Regional Companies.

5) In addition to the facts described in the response to questions #3 and #4, Rudden is of the opinion that Bay State has demonstrated good practices and judgment by:

- 1) Having identified the bare steel and unprotected coated steel issue;
- 2) Taking self initiated proactive action that resulted in continuous and substantial replacements over many years, and an increased level of replacements in 2004 and a higher level planned for 2005;
- 3) Bringing the issue to the attention of the Department and;
- 4) Developing a Bay State Steel Infrastructure Replacement program to ensure that the bare steel and unprotected coated steel mains are retired in a timely manner.

It is Rudden's contention that these actions demonstrate Bay State's commitment to operating and maintaining a safe distribution system.

In Rudden's view, Bay State has applied good practices through its identification of segments of pipeline that need further attention. Rudden notes that Bay State continuously updates its maps to reflect new corrosion leaks. It is Rudden's further understanding that Bay State reviews these maps annually to identify segments that need further attention. It is also Rudden's understanding that Bay State staff utilizes its Work Order Management System to identify segments of main that need further attention.

6) Heath did not provide any documents while working with Rudden. Heath did discuss Rudden's draft DOT data comparison findings with Rudden.

According to Rudden, the relevant information from these conversations is:

"Heath discussed that unprotected coated steel pipes will tend to show a greater rate of corrosion than unprotected bare steel. Heath's experience is that unprotected coated steel pipes will have more leaks per mile than bare steel. This is because a coated pipe (with effective coating) has less surface area exposed to the soil, therefore where there are breaks in the coating, metal loss will be concentrated at those points and cause the leak to occur sooner. At best, unprotected coated steel

pipes could have a leak rate equal to bare steel. An example would be if the unprotected coated steel pipes have completely ineffective coating. In such cases it would corrode in a similar manner to bare steel.

Heath made suggestions to improve the reader's understanding of Rudden's description of the impact that higher pressures have on leaks and leak detection and to clarify that higher pressure mains have greater gas escaping from a similar size corrosion hole on a lower pressure main and typically these leaks will therefore be detected earlier."

SUPPLEMENTAL RESPONSE:

The electronic files previously provided on CD as part of the Company's response to Attachment AG 14-19(c), which contained Bay State specific data, are being supplemented with an additional CD containing industry comparative data. This CD is being hand delivered to the Attorney General only.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIFTEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: John E. Skirtich, Consultant (Revenue requirements)
Joseph A. Ferro, Mgr., Regulatory Policy (Rates and Tariffs)

AG-15-9 Regarding MDTE No. 63, section 9.3, please explain whether or not the cost of Metscan replacement meters is included in this calculation.

Response: The costs of Metscan devices are included in Account 397, Communication Equipment, and as such are not considered a SIR Program investment as set out in Section 9.3 of the ABRAM tariff, M.D.T.E. No. 63, at 13. Therefore, the cost of Metscan devices is not included in this calculation.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
TWENTY-SECOND SET OF INFORMATION REQUESTS FROM THE ATTORNEY
GENERAL
D. T. E. 05-27

Date: July 19, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)
James L. Harrison, Consultant (Cost Studies)

AG-22-47 Refer to Schedule JLH-2-2. Was any attempt made to assign affiliate costs to the accounts that would have been booked had these costs been incurred by Bay State? Please include all internal and external communication or correspondence related to this issue (booking and allocation of affiliate costs).

Response: Charges from NiSource Corporate Services Company ("NCSC") are recorded by its affiliates to account 923, Outside Services Employed. Some of these costs would have been recorded to other functional accounts if Bay State would have been incurring the costs directly.

To assist Mr. Harrison in assigning these costs to the proper rate class, Bay State contacted its affiliate, NCSC for more information. NCSC provided 2004 billings to Bay State by function showing the allocation bases used by NCSC to allocate or bill the costs to the affiliates. Descriptions of the allocation bases were also provided. Please see a copy of the report and the descriptions of allocation bases included in Mr. Harrison's work papers, Acct 923 – Outside Services from NiSource. The information was sent as an Excel spreadsheet as part of the Company's response to DTE-2-8.

Conference calls were conducted with the Accounting Manager for NCSC to provide additional insight in the allocation of the cost and to determine if it were possible to accurately reallocate costs from account 923 to estimate costs in other operations and maintenance expense accounts as if they would have occurred if billed directly. These efforts were met with limited success as reflected in Mr. Harrison's accounting cost studies, Schedules JLH-2-2 and JLH-2-3. For customer billing, NCSC provided a study calculating the cost per bill. This information was provided by e-mail. A copy of the e-mail and relevant pages of the study are included as Attachment AG-22-47.

NiSource Dick James

04/06/2005 04:30 PM

To: John Skirtich/NCS/Enterprise@NiSource

CC:

Subject: Re: Outstanding Items

John, as we discussed, the Bay State annual billing cost per customer is estimated to be \$5.69. Although we do not have specific accounting numbers to track the billing programming and computer utilization costs, the attached document is what I used to determine such expenses. As far as I know this is the best information available. I have highlighted in yellow the relevant information for Bay State Gas. Please let me know if you have questions or need further information. Thanks.



Customer Care Application Statistics (December 31, 2004) -

Dick James
614-481-1396 (Marble Cliff)

John Skirtich

John Skirtich
04/06/2005 09:01 AMTo: Dick James/NCS/Enterprise@NiSource
cc: Thomas Birmingham/BSG/Enterprise@NiSource, Kelly
Humrichouse/NCS/Enterprise@NiSource
Subject: Outstanding Items

Hi Dick!

I'm working on the Bay State rate case, and as one of the items below indicates, we need to know of all the IT NCSC charges how much is related to billing. Kevin Johnson in NCSC accounting and I have been talking to a couple of people, but they provide bits and pieces, and of course the job order system that we use doesn't specifically give it to us. Is there someone I could talk to that could give me a good estimate of what the IT costs is for billing? I'm looking for a number by today or tomorrow. Any help would be greatly appreciated. John.

John E. Skirtich
Regulatory Consultant
Adecco Technical
614-460-4634
614-460-6851 (Fax)

----- Forwarded by John Skirtich/NCS/Enterprise on 04/06/2005 08:23 AM -----

"Jim Harrison"
<jharrison@manapp.com>
m>
04/05/2005 05:38 PMTo: Thomas Birmingham/BSG/Enterprise@NiSource, John
Skirtich/NCS/Enterprise@NiSource, Joseph
Ferro/BSG/Enterprise@NiSource, Marjorie
Matthews/NCS/Enterprise@NiSource, "Bob Dewees"
<rdewees@nixonpeabody.com>
cc: "Mike Morganti" <mmorganti@manapp.com>
Subject: Outstanding Items

Since time is getting short, I thought I'd better list the open items on our list. We've emailed and/or phoned on all of these items, so none of them should be a surprise. In order to finish the cost studies, provide Paula with rate design info, and finish testimony, we need all of the following:

1	Final revenue requirements schedules	Skirtich
2	Legal Department allocation to Supply-function	Bay State gas Company D.T.E. 05-27 Attachment AG-22-47 Page 2 of 3 Skirtich
3	Breakdown of 903 (Customer accounting) into billing, payment processing and collections	DeCarlis/ Matthews
4	Breakdown of IT charges in Outside services between billing and other	Skirtich
5	Comments on draft testimony	Deweese/ Et al

From the Office of:

James L. Harrison

Management Applications Consulting, Inc.

1103 Rocky Drive, Suite 201

Reading, PA 19609

Phone: 610 670 9199

Fax: 610 670 9190

Email: jharrison@manapp.com

Location 7700 - 2004 Cost per Customer (customer counts based on # retail customers associated with "JB" allocation)														
Total NipSCO, BSG & NU Services =				1,415,840				Total Columbia Customers =			2,164,968			
			# Customers	1,085,504	330,336	139,906	1,381,860	31,343	400,430	211,429	3,580,808			
Team/Function	2004 Resource FTE total \$	External Maintenance \$	Application Support Cost	NIPSCO	BGC & NU	CKY	COH	CMD	CPA	CGV	Total	Application Support \$/Customer	Mainframe Computer Utilization \$/Customer	Total \$/Customer
CIS														
Billing/Adj/Rates	\$742,500	\$0	\$742,500	\$569,264	\$173,236	\$0	\$0	\$0	\$0	\$0	\$742,500	\$0.52	n/a	
Bill Format	\$270,000	\$30,000	\$300,000	\$230,006	\$69,994	\$0	\$0	\$0	\$0	\$0	\$300,000	\$0.21	n/a	
Work Station	\$540,000	\$0	\$540,000	\$414,010	\$125,990	\$0	\$0	\$0	\$0	\$0	\$540,000	\$0.38	n/a	
Rev/Reporting	\$675,000	\$0	\$675,000	\$517,513	\$157,487	\$0	\$0	\$0	\$0	\$0	\$675,000	\$0.48	n/a	
Bus Analysis	\$337,500	\$0	\$337,500	\$258,756	\$78,744	\$0	\$0	\$0	\$0	\$0	\$337,500	\$0.24	n/a	
Testers	\$936,000	\$0	\$936,000	\$717,618	\$218,382	\$0	\$0	\$0	\$0	\$0	\$936,000	\$0.66	n/a	
Prod Control	\$334,800	\$0	\$334,800	\$256,686	\$78,114	\$0	\$0	\$0	\$0	\$0	\$334,800	\$0.24	n/a	
Help Desk	\$187,200	\$0	\$187,200	\$143,524	\$43,676	\$0	\$0	\$0	\$0	\$0	\$187,200	\$0.13	n/a	
Total CIS	\$4,023,000	\$30,000	\$4,053,000	\$3,107,376	\$945,624	\$0	\$0	\$0	\$0	\$0	\$4,053,000	\$2.86	\$2.83	\$5.69

Customer Care 2004 Application Statistics

Assembled as of December 31, 2004

Average Productive Hours/Month/FTE

150

Team/Function	2004 Production Support (P/S) FTE's	2004 New Enhancement (N/E) FTE's	2004 Total FTE's	\$/Hr	P/S 2004 \$	N/E 2004 \$	2004 Resource FTE total \$	External Maintenance \$	Budget Amounts for Location 77xx	Mainframe Computer Utilization \$	Remaining Depreciation \$ (Rough Estimate)	Key Application Name(s) & Initial Install	Application Platform(s)	Functional Adequacy	Technical Adequacy	Business Owner
CIS																
Billing/Adj/Rates	3.50	2.00	5.50	\$75.00	\$472,500	\$270,000	\$742,500	\$0	\$742,500	\$4,000,000	\$45,000,000	CIS - 1996	Mainframe/CICS	High	Med-High	Same as DIS
Bill Format	1.00	1.00	2.00	\$75.00	\$135,000	\$135,000	\$270,000	\$30,000	\$300,000	Incl. Above	Incl. Above	CIS - 1996	MVS/Windows	High	Med-High	"
Work Station	3.00	1.00	4.00	\$75.00	\$405,000	\$135,000	\$540,000	\$0	\$540,000	"	"	CIS - 1996	CICS	High	Med-High	"
Rev/Reporting	3.00	2.00	5.00	\$75.00	\$405,000	\$270,000	\$675,000	\$0	\$675,000	"	"	CIS - 1996	DB2	High	Med-High	"
Bus Analysis	1.00	1.50	2.50	\$75.00	\$135,000	\$202,500	\$337,500	\$0	\$337,500	"	"	CIS - 1996	Cobol	High	Med-High	"
Testers	5.00	5.00	10.00	\$52.00	\$468,000	\$468,000	\$936,000	\$0	\$936,000	"	"	CIS - 1996	C++	High	Med-High	"
Prod Control	3.00	0.00	3.00	\$62.00	\$334,800	\$0	\$334,800	\$0	\$334,800	"	"	CIS - 1996		High	Med-High	"
Help Desk	1.00	1.00	2.00	\$52.00	\$93,600	\$93,600	\$187,200	\$0	\$187,200	"	"	CIS - 1996		High	Med-High	"
Total CIS	20.50	13.50	34.00	\$65.74	\$2,448,900	\$1,574,100	\$4,023,000	\$30,000	\$4,053,000	\$4,000,000	\$45,000,000					

Notes:
 FTE's/Team/Function: are high level assumptions assuming current development and maintenance activities

\$/Hr: includes salaries, benefits, travel, computer, materials, training, administrative and management overhead expenses, essentially all expenses except vendor software license fees

Remaining depreciation values are high level order of magnitude values

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SIXTEENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: July 19, 2005

Responsible: John E. Skirtich, Consultant (Revenue Requirements)

Supplemental Response

DTE-16-1 Refer to Exh. BSG/JES-1, Workpaper JES-7, at 2. Please explain how the estimated retirement cost of \$2,408.11 for each of the indicated project was determined and describe the proposed ratemaking treatment for these costs.

Response: The cost of retirement was based on the formula shown in Table DTE-16-1 below.

TABLE DTE-16-1

Formula used to estimate retirement costs - avg. time for retirement 12 hours

Employee/Equipment	Hrly rate	Total
1 Grade 10 tech	30.09	421.26
1 Grade 9 tech	28.16	394.24
1 Grade 8 tech	26.59	372.26
1 Welder	28.16	394.24
Police detail	50.00	600.00
4 pieces of equipment:	avg.day rate	
Boom truck	17.80	66.69
Street truck	15.95	63.93
Welder	6.55	49.83
Backhoe	3.77	<u>45.66</u>
		2,408.11

Supplemental Response:

With the exception of police detail, the employee totals shown above represent 8 hours of straight time at the hourly rate shown and 4 hours of overtime paid at 1.5 times the hourly rate. For police detail, the hourly rate is consistently \$50.

The equipment totals were computed by dividing the average day rates by 8 and then multiplying by 12. Each total also includes \$40 per day for gasoline.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SIXTEENTH SET OF INFORMATION REQUESTS FROM THE D.T.E.
D. T. E. 05-27

Date: July 19, 2005

Responsible: Joseph. A. Ferro, Manager, Regulatory Policy

DTE-16-38 Please provide a complete description of the Company's policy on contributions for extension.

Response: Please see responses to AG-15-10 and UWUA-3-53. Attachments to UWUA-3-53 provide the Company's instructions in assessing investments to serve customers by way of using a Discounted Cash Flow (DCF) analysis, including when a customer contribution is needed due to a revenue shortfall.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
THIRD SET OF INFORMATION REQUESTS FROM USWA, AFL-CIO/CLC
D. T. E. 05-27

Date: July 19, 2005

Responsible: Stephen H. Bryant, President

USWA-3-12: Referring to the June 16, 2005 letter (see Exhibit B) sent by Robert Skaggs to all non-union and management elements regarding reductions or changes to employee health, 401K, and life insurance benefits, provide all documents relating to or regarding these changes, including, but not limited to all documents demonstrating the cost savings NiSource and the Company are projected to realize as a result of these changes from 2005 to 2015. To the extent not already provided, project the cost savings NiSource and the Company will respectively realize as a result of these changes for 2005 to 2015, and identify all assumptions utilized in these projections.

Response: The estimated savings to NiSource based on benefit changes for exempt employees referenced in Mr. Skagg's June 16, 2005 letter, were as follows:

- for active exempt employee health and welfare benefits: estimated \$23 million cumulative savings from 2006 – 2010; and
- retirement plan savings approximately 2% of pay, or \$4 million annually

These figures, which were based on a presentation made to the Board of Directors on May 16, 2005, reflected the best information the Company had at the time. However, since this time the Company has continued to refine the details associated its benefit changes, and a revised analysis of projected benefit cost savings is not available.

No estimates have yet been made as to how these benefit cost savings will flow to the individual operating companies.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
THIRD SET OF INFORMATION REQUESTS FROM USWA, AFL-CIO/CLC
D. T. E. 05-27

Date: July 19, 2005

Responsible: Stephen H. Bryant, President

USWA-3-13: Provide all documents verifying NiSource Vice President LaNette Zimmerman's claim, posted June 17, 2005 at http://my.nisource.com/portal/server.pt/gateway/PTARGS_0_2_87144_0_018/20050616BC that "According to recent studies, the value and cost of NiSource's overall benefits continue to greatly exceed those offered by our peer utilities and other companies."

Response: The supporting documentation for the above statement has been included in AG-12-24 CONFIDENTIAL.